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BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Market Dominant Price Adjustment | **Docket No. R2013-10**

COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pursuant to Order No. 1842, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) September 26, 2013 Notice of Market-Dominant Price Adjustment (Notice). On the same date, the Postal Service renewed its exigent rate request filed in Docket No. R2010-4.[1] Because the proposed price adjustments in the Exigent Request are derivative of the proposed price adjustments in the Notice, the relationships between the two requests are important and deserve consideration in both dockets.[2]

Pitney Bowes has long urged the Postal Service to use its pricing flexibility to drive efficiency, ensure that postal services are provided at the lowest possible cost to mailers, and encourage the retention and growth of the most efficient and profitable products. The Postal Service should use its pricing flexibility to promote universal, affordable mail service.

These comments address the following issues: (1) compliance with the statutory price cap, (2) the timing of the Notice, (3) the proposed First-Class Mail prices, and (4) the proposed promotional programs.

II. DISCUSSION

A. Additional Information is Required To Determine Compliance with the Annual Limitation

The Public Representative raised concerns that the Notice does not provide adequate information to assess the price cap implications of the proposed Full Service Intelligent Mail

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[1] *See* PRC Dkt. No. R2010-4R, Renewed Exigent Request of the United States Postal Service in Response to Commission Order No. 1059 (Sept. 26, 2013)(Exigent Request).

[2] *See e.g*., Exigent Request, at 7 ("Immediately prior to filing this Request, the Postal Service filed a Type 1-A annual price adjustment . . . the Postal Service proposes exigent price increases . . . on top of the increases set forth in Docket No. R2013-10."); Exigent Request at 15, n.24 ("If the Docket No. R2013-10 increases are not approved, the Postal Service would amend this Request to incorporate all of the increases and classification changes sought in that docket.").

barcode (IMb) eligibility requirements scheduled to take effect in January 2014.[3] Pitney Bowes shares those concerns. According to the most recent historical billing determinant data, approximately one-third of all First-Class Mail Automation letters do not currently meet Full Service IMb requirements. To the extent that some or all of these mailers are required to pay higher prices, i.e., nonautomation rates, the Postal Service would collect more revenue than is permitted under the price cap. The price cap rules do not allow the Postal Service to assume that mailers will change their behavior to remain eligible for Automation prices. Commission rule 3010.23(d) was recently revised to ensure that the calculation of the percentage change in rates must use historical billing determinants and that adjustments to billing determinants may not be based on assumptions such as forecasted changes in mailer behavior.[4] Additional information is required from the Postal Service to enable the Commission to determine whether the Notice complies with the price cap rules.

B. Postponing Implementation May Be Necessary to Allow Mailers to Prepare

Pitney Bowes appreciates that the Postal Service continues to provide more notice than is statutorily required. The Postal Service filed this Notice 122 days in advance of the proposed implementation date of January 26, 2014, thereby providing the mailing community significantly more notice than is required under the law (45 days). However, the ability of the mailing community to prepare for the proposed price adjustments will be affected by the uncertainty regarding the pending Exigent Request. If the Exigent Request is approved, adjusted, or rejected the need for additional changes may not be known for several months. The ability to prepare may be further affected by the delays caused by the Federal Government shutdown. Accordingly, Pitney Bowes urges the Commission to recommend to the Postal Service that it

[3] *See* PRC Dkt. No. R2013-10, Public Representative Motion for Issuance of Information Request (Sept. 30, 2013) at 2-3.
[4] *See* 39 C.F.R. § 3010.23(d); PRC Dkt. No. RM2013-2, Order No. 1786, at 14-20 (Jul. 23, 2013).

consider delaying the proposed implementation date to afford the mailing community sufficient time to adequately prepare for the price changes.

C. Establishing a Separate Price for Metered Mail Is Good for Small Business Mailers and Good for the Postal Service

Pitney Bowes supports the introduction of a new price for single-piece metered letters, and commends the Postal Service for using its pricing flexibility to bring this about. A separate metered mal price will allow the Postal Service to segment its consumer and business single-piece First-Class Mail customers while leveraging a proven, secure payment channel to avoid operational and transaction costs associated with retail stamp sales. This new discount will encourage more mailers, particularly small to mid-sized businesses, to stay in the mail and use it in new ways to grow their business. It democratizes workshare discounts that have historically been available only to larger mailers and appropriately rewards small and mid-size businesses for actions they take that reduce Postal Service costs.[5] The metered mail price will permit small business mailers to grow their mail volumes as mailing costs are reduced.

D. First-Class Mail Presort Prices Should Encourage Retention and Growth of the Most Efficient, Profitable Products

As in the past, the price adjustments proposed for First-Class Presort Letters represent a missed opportunity for the Postal Service to use its pricing flexibility to drive efficiency and achieve lowest combined costs for postal services. The Notice states "prices in Presort Letters/Postcards reflect the costs that the Postal Service avoids when customers presort and otherwise prepare their mail for automation processing." Notice at 21. Pitney Bowes agrees that

[5] As noted by the Postal Service, the genesis of the separate price for metered mail was an observation shared by the Commission in a footnote of the Order resolving the presort benchmark rulemaking. *See* Notice at 19 (citing and quoting PRC Dkt. No. RM2010-13, Order No. 1320 (Apr. 20, 2012) at 11, n.22). Although the primary beneficiaries of this new metered mail price are small business mailers, the introduction of a separate metered mail rate will also increase the Postal Service's pricing flexibility by allowing it to measure workshare-related costs avoided and price from a more accurate presort benchmark, thus allowing it to improve prices for its largest presort customers.

that ought to be the aim of the rate design, but the prices proposed in the Notice fall well short in this regard.

The Postal Service proposes *reducing* the discount for 5-Digit Automation Letters by 0.1 cents, which leads to a passthrough that is substantially below costs avoided at 82.1 percent. The Postal Service provides no justification for an 82 percent passthrough, as required under Commission's rules. *See* 39 C.F.R. § 3010.14(b)(6). Already, under existing prices, this passthrough fails to fully reflect costs avoided. The proposed decrease in the discount moves the price for the most finely-presorted, efficient and profitable rate category even farther away from full recognition of the costs avoided by the Postal Service. This misguided approach results in higher prices for the product the Postal Service has recognized as the most important to its largest First-Class letter mail customers.[6]

In an effort to explain away the decrease in the discount for 5-Digit Automation Letters, the Postal Service states that it was "careful to ensure that the gap between Single-Piece stamped letters, and the finest presort level . . . will increase from 10 cents to 10.4 cents." Notice at 41. The record in the recent benchmark proceeding established that cumulative spread is not the appropriate measure.[7] Mailers are not choosing between single-piece and 5-Digit Automation letters. As the Commission recently concluded the appropriate reference point for 5-Digit Automation letters is the hybrid AADC / 3-Digit Automation letters benchmark.[8] Moreover, the cumulative spread is increased only by measuring from the wrong reference point. As measured from the prevailing presort benchmark, metered mail, the cumulative spread actually decreases from 10 cents to 9.4 cents.

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[6] *See* PRC Dkt. No. R2011-2, United States Postal Service Notice of Market Dominant Price Adjustment (Jan. 13, 2011), at 13.
[7] *See* PRC Dkt. No. RM2010-13, Order No. 1320 (Apr. 20, 2012) at 11.
[8] *See* PRC Dkt. No. RM2012-6, Order No. 1753, Order Revising Benchmark Used to Calculate the Costs Avoided by Automation First-Class 5-digit Letter Mail (Jun. 18, 2013).

It appears that the 5-Digit Automation discount was reduced in the CPI Request to offset the anticipated increase in the discount with the across-the-board increases proposed in the Exigent Request. Yet the resulting discount (even assuming approval of some or all of the prices adjustments proposed in the Exigent Request) still fails to passthrough the full measure of costs avoided. The discount should be set at 2.8 cents to accurately reflect the costs that the Postal Service avoids for mail prepared at the 5-Digit Automation level.

The failure to passthrough the full measure of the costs avoided results in inefficiency and increases costs to mailers and should be discouraged on this ground alone. But the Postal Service's persistent practice of setting discounts below avoided costs also raises important issues of fairness. Setting discounts below avoided costs is inequitable;[9] it is a form of unfair competition that threatens to exclude more efficient and cost effective providers from competitive upstream postal markets.[10]

Setting workshare discounts below avoided costs is also inconsistent with the objectives and factors of the modern rate system under the PAEA.[11] Market dominant prices must be developed with "consideration for the qualitative rate and classification objectives and factors identified in sections 3622(b) and 3622(c)."[12] Decreasing the discount for 5-Digit Automation letters fails to give adequate consideration to the profitability and economic efficiency concerns expressed under sections 3622(b)(1) (incentives to increase efficiency), 3622(b)(5) (assure

[9] *See* e.g., 39 U.S.C. § 3622(d)(1)(E).
[10] PRC Dkt. No. ACR2011, Comments of Dr. John Panzar (Feb. 3, 2012) at 5 ("Reducing discounts below Postal Service avoided costs is a form of exclusionary pricing. This vertical price squeeze would exclude more efficient competitors from performing upstream services. This would have a short-term negative effect on the productive efficiency of the postal sector and a longer-term negative effect of slowing or reversing the shift in value added from the Postal Service to the private sector.").
[11] *See* Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The PAEA amends various sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.
[12] PRC Dkt. No. RM2009-3, Order No. 536 (Sept. 14, 2010) at 16.

adequate revenue), 3622(c)(4)(available alternatives to mail), and 3622(c)(5)(prices reflecting degree of mail preparation). *See* 39 U.S.C. §§ 3622(b)(1) and (5), 3622(c) (4)-(5).

E. Maintaining the Full Service IMb Discount is Sound Pricing Policy

Pitney Bowes supports the Postal Service's proposed continuation of the discount for First-Class Mail Automation Letters that comply with the requirements for the Full Service IMb option. Pricing incentives are an effective and necessary tool to continue to drive adoption of Full Service IMb. Widespread adoption of the Full Service IMb is critical. The Full Service IMb will serve as the platform for increased visibility and enhanced value for senders and recipients, and greater operational efficiencies and improved service performance for the Postal Service.

F. Advance Notice Will Help Mailers Take Advantage of Innovative New Promotions and Incentives

The Postal Service seeks approval for eight promotions and one incentive program during calendar year 2014. *See* Notice at 6-11. Pitney Bowes supports the Postal Service's innovative use of its pricing flexibility to increase the value of mail and to further integrate mail and emerging mobile and ecommerce technologies. Pitney Bowes commends the Postal Service for providing a full calendar year schedule of promotions in this Notice. The advance notice should help interested mailers participate fully in these innovative programs.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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